



The Evolving Video Landscape: The Shift to Connected TV *Marketplace Intelligence Brief*

By Ben Hovaness and Al Lau

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EXECUTIVE SUMMARY

Linear TV viewing is in decline. Consumers are spending just as much time in front of their televisions, but the content they are consuming has changed: more time than ever is spent with TV-connected devices, or “CTV” for short. While linear TV still makes up the bulk of viewing hours for adults 18+ (30 hours per week), the amount of time spent with CTV is now more than 12.5 hours per week.¹ And when we look at the viewing behavior of younger Americans, people 18-34 now spend more time with CTV than watching linear TV. The good news is that that 2021 marks the first year that advertisers are able to buy CTV ads against all the same entertainment content they are accustomed to buying on linear networks, thanks to a new generation of “over-the-top” (OTT) media platforms.

The consumption trend away from linear and towards CTV has been driven by a few key developments: the wide availability of high-speed internet capable of delivering an HD video signal, the ubiquity of smart TVs and cheap connected devices like streaming sticks, and the popularity of early entrants to the entertainment CTV space like Netflix and Amazon Prime Video. The major media companies like Disney, ViacomCBS, NBCU, Time Warner and Discovery have responded to these developments by launching internet-delivered OTT video offerings that offer all the content consumers are accustomed to seeing on linear TV as well as OTT exclusives: Disney+ and Hulu, Paramount+, Peacock, HBO Max and Discovery+. While we think these new OTT offerings have a bright future in the ads marketplace, there are two broader insights for advertisers, tied to these developments:

1. **The Decline of Linear Viewership Will Accelerate**

Between 2015 and 2020, the linear ad supply of impressions against adults 18-49 shrank by more than 40%. It is worth noting that this decline occurred during a period of significant content exclusivity for linear TV – consumers who abandoned linear TV were giving up quite a lot of content not available on OTT services! Now that every major media company has launched or is launching an OTT offering focused on entertainment, we anticipate that the rate of decline in linear viewership is going to accelerate. Our view is that news and sports – the two content types that will remain largely exclusive to linear TV – will be insufficient to retain most viewers. Given all this, advertisers should prepare for linear rate inflation to **accelerate** over the coming years.

2. **The Migration to CTV and OTT Viewing Will Compress Ad Supply**

To some extent, the migration from linear TV to OTT is simply a change in content distribution: instead of watching a TV show on a channel, users pick a show in an OTT app’s user interface and start streaming it. But OTT isn’t just a different user experience – it is fundamentally a different **kind** of distribution, one-to-one rather than broadcast. That gives media property owners the ability to offer both ad-free and ad-supported versions of their new services in a way that was impractical with linear TV, improving their ability to maximize revenue through price segmentation. We anticipate that at least 30% of subscribers to these OTT services will opt to pay more for an ad free experience. This means that in aggregate, assuming that a) OTT viewership

¹ Nielsen Total Audience Report Q3 2020, pg. 3

grows to replace present linear viewership and b) ad loads are stable (ad minutes per hour of content), video ad supply is going to shrink.

These twin trends indicate a few key recommendations for advertisers:

1. Diversify Upfront Investment to the New OTT Platforms

The accelerating decline of linear ratings will make a linear-only upfront less reliable as a means of guaranteeing ads delivery. This is straightforward enough – the more volatile ratings become, the harder it is for sellers to accurately predict ad delivery and fulfillment of upfront commitments. We have already seen this phenomenon over the past several years, as sellers have chronically fallen short on delivery and have accumulated liability in the form of ADUs. And the shrinking reach of the typical linear program increases over-frequency problems. Despite these challenges, abandoning the upfront is not the answer. We recommend that our clients diversify their upfront investment to include these OTT services such as Peacock, Paramount+, etc. to gain exposure to the upside of these platforms' success. To manage risk, we further recommend that advertisers negotiate flexibility of delivery and increased cancellation options in their upfront negotiations this year.

2. Reconsider the Role of Integrations, Custom Content, and Sponsorships

Custom content, sponsorships, integrations: none of these are new to advertisers. What is new, however, is the diminished role that traditional advertising breaks will play in the new video landscape. With viewership of any given show fragmented across both ad-supported and ad-free viewers, buying an ad against a piece of content no longer guarantees that it will reach the full audience. Product placement and sponsorships offer a way out of this audience fragmentation by embedding the advertiser's offering or message in the content itself. We recommend that advertisers reconsider the role of integrations, custom content, and sponsorships in their video advertising investment, with an eye towards expanding it over the coming years. Advertisers can and should include these sorts of arrangements in their upfront negotiations.

3. Expand Video Investment Beyond Traditional TV Media Sellers

While the major media conglomerates have all created OTT video offerings, and we recommend diversifying upfront spend to include them, it is highly unlikely these companies will ever fully reproduce their historical supply of TV ad inventory. This supply constraint indicates that advertisers should further diversify their spend in the living room to a broader set of media partners. YouTube, Roku, and IMDb TV (among others) all offer large audiences and competitive CPMs. Advertisers can access a wide variety of smaller CTV properties programmatically, aggregating reach across a number of supply sources. We recommend advertisers critically evaluate their current mix of TV investments, and aggressively diversify their investment on TV and TV-connected devices to boost their exposure to increasing CTV ad supply.

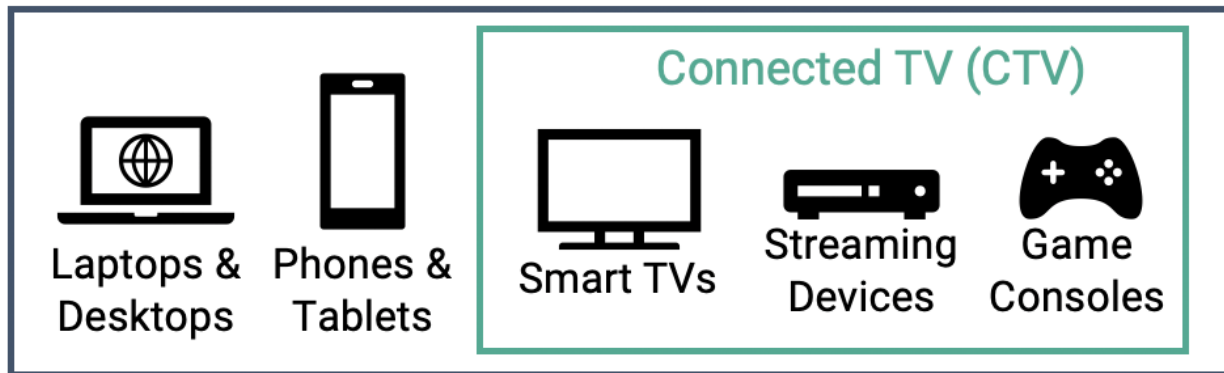
Over-The-Top Services (OTT)

Streaming Video
On Demand (SVOD)

Ad-Supported Video
On Demand (AVOD)



Devices



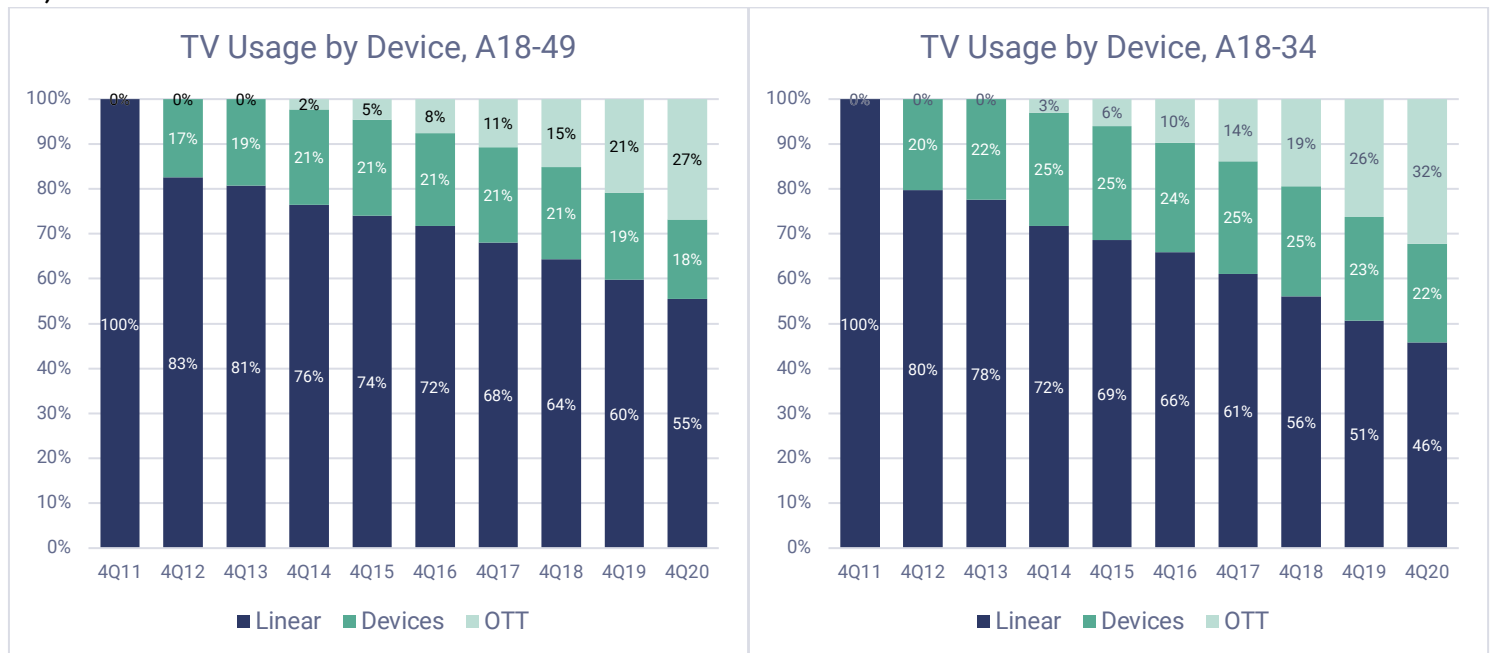
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² "Devices" portion of this figure adapted from an [IAB tech lab article](#)

BACKGROUND

The Audience Is Shifting Out of Linear TV

Linear TV has seen a steady audience decline over the last several years. The erosion began with the fragmentation of cable networks, and continued as time-delayed viewership (enabled by ubiquitous DVRs) caused enough disruption to change the currency metric. Now audiences are migrating outside of traditionally delivered channels altogether. More households have dropped cable subscription for choices available in a Broadband-Only (BBO) setting, Nielsen’s designation for cord-cutters and cord-nevers. This has created a net loss of audience for ad-supported content available for purchase by advertisers. Over the past year, the COVID-19 pandemic has accelerated this long-running shift out of linear TV consumption. Since Nielsen began measuring and reporting on non-linear television usage, devices (which includes DVR, DVD, and Game Consoles) and OTT TV (Over The Top, which consists of Smart TV, media sticks and boxes) have both gained a significant share of viewership and usage. Among adults 18-49, OTT and connected devices now account for nearly half of consumption. And for those 18-34, the share is now more than half.³



The TV Upfront Process: Origins and Challenges

Every spring since 1962, advertisers and agencies have gathered with major broadcast networks to review the upcoming fall lineup of programming and anticipated ad inventory. “Upfront” deals were initially struck to help advertisers secure inventory they can rely on for their marketing plans. Agencies helped coordinate all the details of the upfront deal structure and execute the buys accordingly. And networks were able to estimate their upcoming revenue for future content investments.

Over time, media fragmentation has changed the upfront structure dramatically. First, it was getting cable networks involved in the process as viewership grew. Then the Newfronts were formed to help

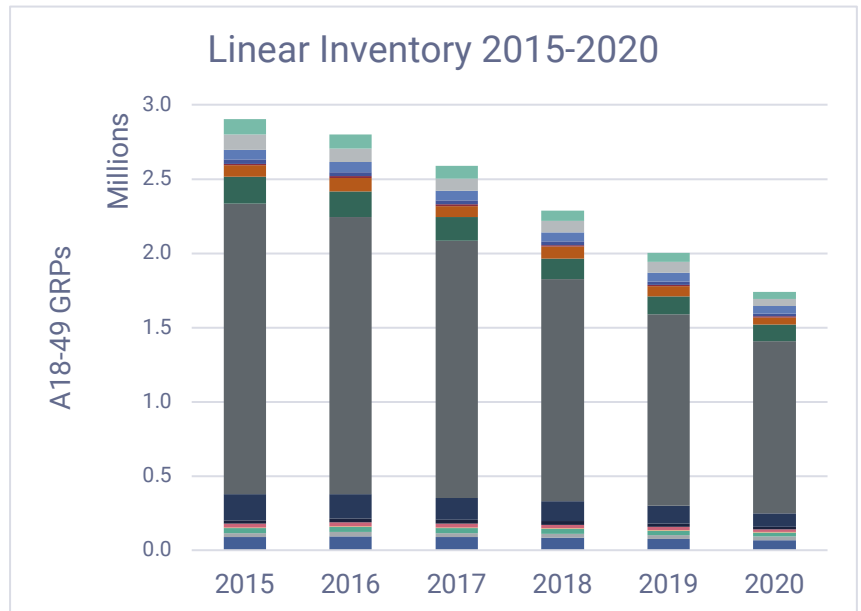
³ Nielsen data

digital media vendors to get a share of upfront spending commitments. Now the major media conglomerates are trying to spread upfront commitments across their vast multimedia empires. As the marketplace changes, in many ways the linear market stays the same. The traditional linear market still functions in a supply and demand model to determine pricing: we have seen the drop in ad supply materialize as higher prices, because demand continues to outpace supply.

With shrinking viewership and available inventory, over the past 25 years upfront pricing has seen increases every year except for the BY0102 and BY0910 seasons (those years had steep drops in demand induced by negative macroeconomic conditions). For the past BY2021 upfront, there were also some demand decreases, but the market managed to keep the pricing at flat or at a slight increase.

Between 2015 and 2020, the total available linear ad supply for the A18-49 demographic shrank by 40%. Upfront

buying does allow advertisers to better secure inventory than taking their chances in the scatter market, but most networks faced audience shortfalls at a level that outstripped their upfront commitments. This has resulted in high level of liabilities that are carried over from one year to the next.



CTV: Definitions and Development

Connected Television or CTV is how we describe video programming delivered over the internet and displayed on a TV. The term is inclusive of content delivered by a TV's own smart apps, as well as content delivered by an external device like a Roku stick or Apple TV. OTT refers to internet-delivered video programming, regardless of device. By way of example, Hulu viewed on an iPad is OTT but not CTV, while YouTube viewed on a TV is both CTV and OTT.

The CTV category has seen tremendous growth over the past few years, fueled by technological improvements and increased content availability. The expansion of broadband deployment around the US has increased the typical home download speed to ~120Mbps, far more than the ~20Mbps required to stream a 4K program. Connected devices (Roku, Fire stick, etc.) and Smart TVs (TVs with internet connectivity and applications) have both become ubiquitous and cheap – in fact, it is now difficult to find a new TV lacking smart features. These twin developments in internet connectivity and consumer electronics resolved the longstanding technical challenges that had historically kept internet-delivered video out of the living room.

On the content side, the low cost of entry to Netflix and Amazon Prime combined with their large and growing content libraries have made it easier for consumers to shift away from a traditional cable subscription. These companies are the biggest players in the SVOD, or non-ad-supported, OTT space.

When it comes to ad-supported content, at the high end services like Hulu, Peacock, and peer offerings provide a brand-safe environment with content similar to a typical network. At the more affordable end of the price spectrum, there are a number of CTV channels hosted by the likes of Roku and YouTube which offer the same type of inventory at a lower price point. In CTV advertising, there is a flavor for every taste.

INSIGHTS

The Decline of Linear Viewership Will Accelerate

Our view is that in retrospect, 2019-2021 will be seen as the period when the CTV space started to mature. Consider a sampling of the platforms that have launched during this period: Disney+ and Apple TV+ in 2019, HBO Max, Peacock and AMC+ in 2020, and Discover+ and Paramount+ in 2021.

We anticipate this maturation will accelerate CTV consumption growth over and above the trend to date. And this acceleration in CTV consumption is also going to accelerate the decline of linear TV viewership. Broadly speaking, we think two types of consumers will be driving this trend:

1. **Cord-cutters and cord-nevers:** The phenomenon of households dropping their Pay-TV service (or never acquiring it at all) is having a large impact on linear TV scale. eMarketer estimates⁴ that by the end of 2020, cord-cutters accounted for 30.1 million households, or about 24% of the US total. And they project that by the end of 2022, that number will be closer to be 29%. Another way of expressing this is that by the end of next year, Pay-TV households will account for about 54% of the total, down from 80% in 2015. That means sharply fewer people to drive viewership.
2. **Cord-shavers:** Linear TV consumption isn't an all-or-nothing proposition; consumers also have the option to reduce the scale of their Pay-TV packages as their viewing preferences change. And an added incentive for change now upon us. For the last several years a large portion of high-quality entertainment content produced by the major media conglomerates was available *exclusively* via their linear and Pay-TV networks. Now that these companies are launching OTT services loaded with both their back catalogs and an array of exclusive content, materially all entertainment content will soon be available via CTV. Given the observed consumer preference for OTT platforms, this transition is naturally going to shift viewership to these new platforms at the expense of linear consumption. News and sports will be left as the two remaining anchors of the linear bundle. Those will likely be sufficient to retain many Pay-TV subscribers, but not to maintain present linear consumption levels.

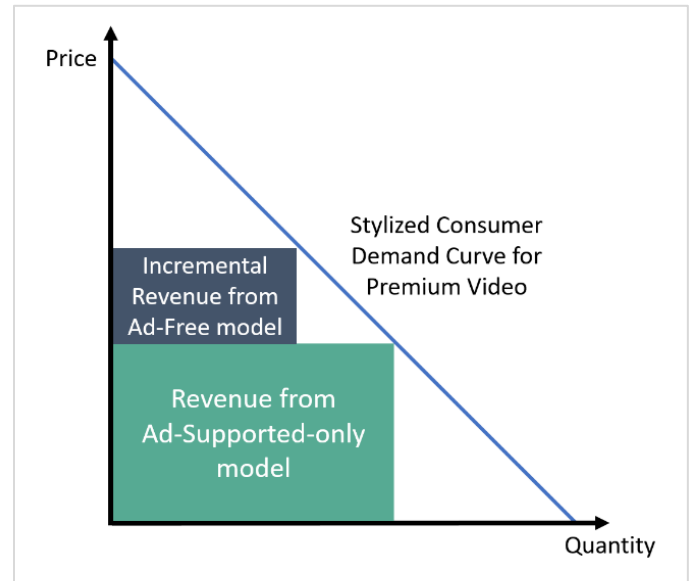
We think the combination of a reduced pool of Pay-TV subscribers and declining consumption by the subscribers who remain will accelerate linear ratings declines for the foreseeable future.

⁴ [eMarketer data on Pay-TV households in the US](#)

The Migration to CTV and OTT Viewing Will Compress Ad Supply

Ad supply as we experience it on the buy side is a function of two variables: ad-supported viewing hours (the total number of hours consumers spend watching ad-supported content) and ad load (the number of ad minutes per hour). Ad-supported viewing hours, multiplied by ad load, yields the total quantity of ad supply available. We expect that the migration to CTV and OTT viewing will certainly reduce the former and probably reduce the latter, at least in the near term.

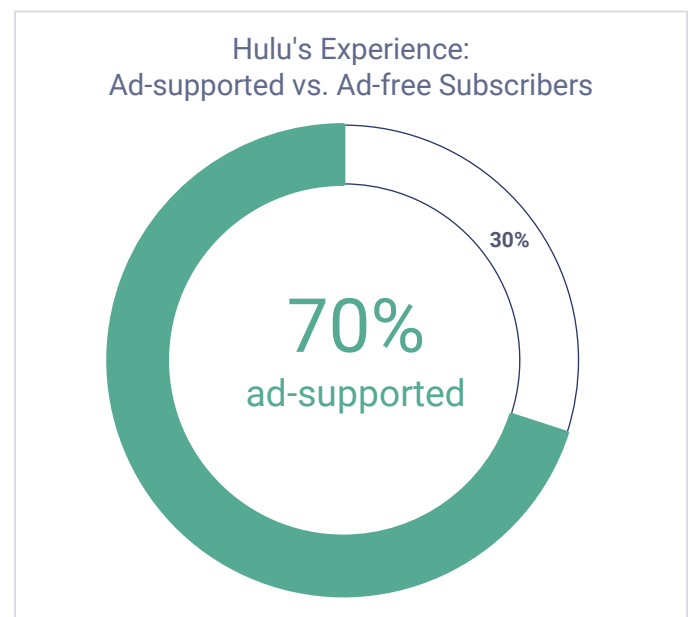
Declining ad-supported viewing hours will be a direct product of the migration from linear to CTV/OTT viewership. Media companies are taking advantage of the 1:1 relationships afforded by internet distribution to segment their services into ad-free and ad-supported offerings. This serves their business interests by enabling a degree of price segmentation (mapping product prices to consumer-willingness-to-pay) which was impossible in the linear era. The diagram to the right is a stylized illustration of the business logic.



Hulu was the first major OTT service to implement this segmentation strategy in 2015 with two price points, one ad-free and the other ad-supported. The new OTT offerings from peer media companies are largely following suit, as the table below summarizes:

	Disney+	Hulu	Peacock	HBO Max	Paramount+	Discovery+
Ad-free	\$8	\$12	\$10	\$15	\$10	\$7
Ad-supported	N/A	\$6	\$0/\$5	TBA June '21	\$6	\$5

We can't know for certain how consumers will split across the ad-free and ad-supported variants, but we can make some informed guesses. [In 2019](#), a Hulu executive indicated that 70% of their subscribers are on the ad-supported offering, with 30% on the ad-free version. We think that is a reasonable baseline for platforms with similar pricing deltas, such as Paramount+. It remains to be seen how consumers will split across services with very large deltas like Peacock (\$10 vs. \$0) and small deltas like Discovery+ (\$7 vs. \$5). Regardless, a substantial fraction of subscribers to each of these platforms will never generate ad-supported viewing hours. That is going to put downward pressure on ad supply.



Ad load is the other variable in the ad supply equation. We know that in linear television, national ad loads average [about 12 minutes per hour](#). Comparisons to

streaming platforms are difficult since ad loads there are not reliably measured. Anecdotally, though, ad loads appear to be lower on these OTT platforms than on their linear counterparts. Peacock’s launch, for instance, was accompanied by an announcement of the [“industry’s lowest ad loads of five minutes per hour,”](#) or about 40% of the linear average. Hulu has about [10 minutes per hour](#), or 83% of the linear average. We aren’t aware of any counterexamples of OTT platforms that offer equal or greater ad loads compared with linear TV.

These twin OTT trends – a decreasing number of ad-supported viewing hours, and reduced ad loads – will inevitably compress ad supply. The new OTT services will become an important part of our investment approach but will not, by themselves, be a solution to our chronic TV supply challenges.

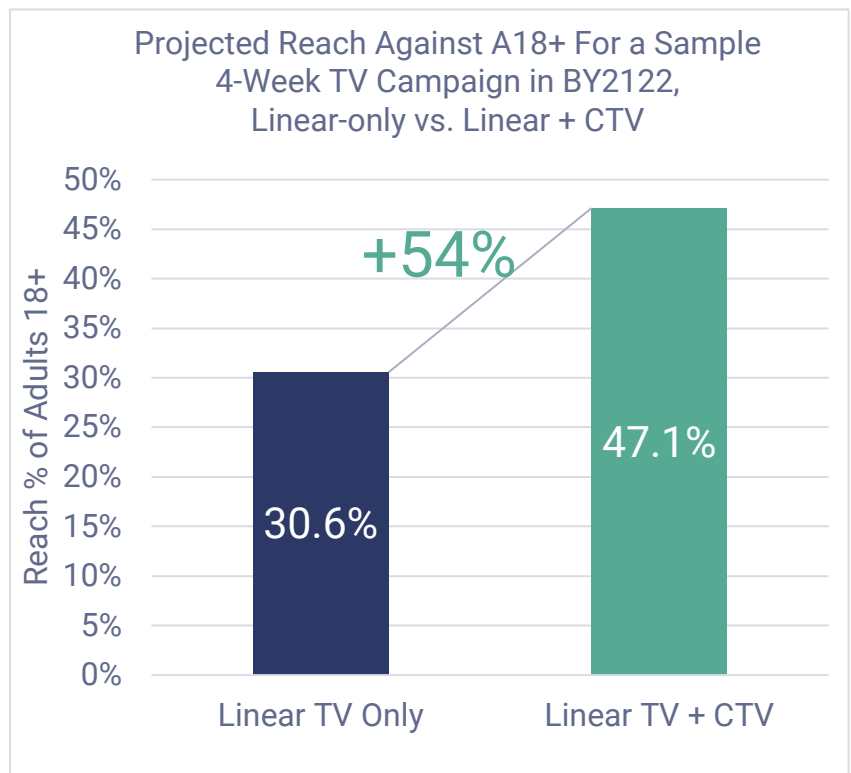
RECOMMENDATIONS FOR ADVERTISERS

Diversify Upfront Investment to the New OTT Platforms

Shrinking linear viewership reduces the value of the media channel in a number of ways: increasing prices, decreasing reach, and increasing over-frequency serving of consumers. The latter two points are less obvious, but equally important to the linear value proposition: the fewer people that a broadcast program reaches, the lower the chances that it is delivering incremental reach to an advertiser’s campaign. For that reason, cable networks with lower reach have historically been much cheaper in CPM terms than their wider-reaching broadcast counterparts. The decline in linear reach increases over-frequency wasted impressions, served to consumers who are already past the point of saturation.

The new OTT platforms give advertisers the ability to regain this lost living room reach. This chart shows the projected household reach % against adults 18+ for a sample linear buy on its own compared with what is possible when CTV is added to the mix: Reach is boosted by over 54%.⁵

Transitioning to OTT platforms also enables technological improvements to frequency control, because ads there are delivered on a 1:1 basis. That means platform owners are able to control ad frequency at the user-level, which is simply not possible in the linear world. While the implementation of frequency controls is up to each OTT platform and therefore bears scrutiny, the potential for waste reduction is enormous.



An upfront approach excessively focused on linear media also exposes advertisers to the challenge of increased volatility. As linear ratings have declined over the past several years, media sellers have

⁵ Internal OMG projections

chronically overestimated – by a large margin – how much supply they would have to sell to advertisers. Advertisers bought based on those projections but didn't receive the full quantity of impressions that they had been promised. As a result, liability has been accumulating. Now in 2021, with an acceleration of the ratings decline imminent, we believe sellers' projections of linear ratings will be even less reliable than before.

All of these trends indicate that advertisers should diversify their upfront investments to the new OTT platforms. In their negotiations, advertisers should push for maximum flexibility of delivery across services (while not being compelled to shift), and improved cancellation options in the event ratings declines accelerate even faster than anticipated. Finally, we recommend that advertisers demand payment-for-delivery terms. The current practice of payment for estimates, combined with rates of linear underdelivery now commonly exceeding 10%, means that advertisers are in effect making enormous advance payments to media sellers. We are confident our clients can find better uses for that capital.

Reconsider the Role of Integrations, Custom Content, and Sponsorships

Increasing consumer adoption of ad-free TV experiences means that advertisers should reconsider the role of integrations, custom content, and sponsorships in their media mix. In the past, advertising against a particular show meant that you would reach all of its viewership. But in a world where 30% or more of CTV viewers on ads-optional platforms are paying a premium to avoid ads, there is added element of audience fragmentation to reckon with. That means that integrations and custom content are going to be more important than ever to reach consumers of entertainment programming. Brands will need to work closely with TV platforms (OTT or otherwise) to identify shows and films that appeal to their audience, share similar ideals, and can lift brand perception through borrowed equity of show, film, or character.

Fortunately, OMG has deep institutional expertise in this area. We have decades of experience in leveraging client media investments to unlock high profile tent poles, scripted integrations, co-marketing deals and now, a strong push by many clients to develop original programming on non-ad supported platforms and ad supported. We have also worked with every major production studio – including Netflix Originals – to identify these opportunities.

For most of our clients, of course, this type of spending is nothing new. But we think this is the moment to reconsider where such efforts live in the planning process. If more and more entertainment content is going to be consumed in an ad-free context, advertisers need to approach strategic media planning with an eye to aggregate consumer attention rather than defaulting to a lens of total impression or GRP tonnage.

Expand Video Investment Beyond Traditional TV Media Sellers

We think that advertisers should take another look at their TV investment portfolios in light of these developments. Shrinking ad supply from the major media companies – created by both linear declines and the compression of ad caused by the migration to OTT – suggests that it is a good idea to cast a wider net on CTV. At OMG, we make CTV ad products available for purchase in a variety of ways. The Enterprise Partnerships team has favorable fixed and auction-based rates exclusive to OMG clients. Outside of such arrangements, many sellers like YouTube will also auction off their CTV inventory at

dynamic prices purely set by market forces. On the linear side, by comparison, many advertisers are used to their own legacy pricing on key vendors – subject, of course, to an annual rate of change. As those rates of change inflate each year, many CTV ad products are becoming increasingly price-competitive and attractive, even in the absence of legacy pricing.

Each advertiser will have to make their own determination about the right mix. Advertisers with lower TV base rates have less incentive to migrate to partners that do not have an advertiser-specific rate card. But even for advertisers with the very lowest TV rates, we think there are substantial untapped opportunities in the world of CTV, especially on the programmatic side. Omnicom account teams can help each of our clients make the price comparison and evaluate the balance of their video investments. As with any market, there are inefficiencies here that can be tapped to the benefit of savvy advertisers.

Conclusion

The shift in media consumption to CTV devices and OTT platforms is going to create challenges for advertisers. Media strategies that were heavily dependent on low legacy base rates with TV sellers are going to encounter increasing headwinds. Advertisers that have not been able to figure out how to generate a return from digital advertising are going to be caught between a rock and a hard place, as linear prices continue to inflate dramatically and digital media further increases its share of time spent.

But where there is challenge, there is opportunity. We think that advertisers who diversify their upfront investment to the new generation of OTT platforms, take a serious look at the role of sponsorships and integrations in their media portfolios, and expand their video investment beyond traditional TV media sellers will be the best-positioned to weather this transition. OMG and its brand agencies have a spectrum of offerings to help you seize the opportunity. We will be with you every step of the way.